UNITED
NATIONS

A

General Assembly

Distr.
GENERAL

A/51/283
13 August 1996

ORIGINAL: ENGLISH

Fifty-first session
Item 113 of the provisional agenda*

FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS AND REPORTS OF THE BOARD OF AUDITORS

Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly, pursuant to Assembly resolution 47/211 of 23 December 1992, the concise summary of principal findings, conclusions and recommendations contained in the reports on the audit of the accounts for the financial period ended 31 December 1995, prepared by the Board of Auditors (see annex).

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Letter of transmittal

31 July 1996

Sir,

I have the honour to transmit to you in accordance with the request by the General Assembly in paragraph 18 of resolution 47/211, the concise summary of principal findings, conclusions and recommendations contained in the reports prepared by the Board of Auditors for the General Assembly at its fifty-first session.

Accept, Sir, the assurances of my highest consideration.

(Signed) Osei Tutu PREMPEH
Auditor General of Ghana
and Chairman
United Nations Board of Auditors

The Secretary-General of the United Nations
New York, N.Y.

ANNEX

Concise summary of principal findings, conclusions and recommendations contained in the reports prepared by the Board of Auditors for the General Assembly at its fifty-first session

1. The General Assembly in its resolution 47/211 of 23 December 1992, invited the Board of Auditors to report in a consolidated fashion on major deficiencies in the programme and financial management and cases of inappropriate or fraudulent use of resources together with the measures taken by United Nations organizations in that regard. The findings, conclusions and recommendations included in the present summary are only those of particular importance relating to common themes in organizations audited by the Board. The detailed findings relating to a particular organization can be found in the relevant report. The Board has reported on the organizations listed at the appendix to the present report.

2. The present summary includes comments on financial and management issues as follows:

(a) Financial issues:

(i) Audit opinions qualified by the Board;

(ii) Compliance with United Nations systems accounting standards;

(iii) Substantial overpayments on construction contracts;

(iv) Significant variances between budgets and expenditures;

(b) Management issues:

(i) Aspects of procurement reform, peacekeeping procurement, lack of planning and failure to secure competitive bids;

(ii) Uneconomic transfer of assets in peacekeeping operations;

(iii) Deficiencies in programme planning, monitoring and evaluation;

(iv) The inadequacy of assessments of capacities of Governments to manage or implement technical cooperation projects and weaknesses in the engagement and management of consultants.

I. FINANCIAL ISSUES

Qualified audit opinion

3. The Board has qualified its audit opinion on the financial statements of six organizations. In four cases (United Nations Development Programme (UNDP),

United Nations Population Fund (UNFPA), United Nations International Drug Control Programme (UNDCP) and United Nations Environment Programme (UNEP)), the Board has restricted the scope of its opinion because it was unable to obtain sufficient evidence, in the form of audit certificates from Governments and non-governmental organizations, that funds advanced to them for technical cooperation projects had been expended for the purposes intended. The Board noted significant growth in the level of expenditure of nationally executed projects and made recommendations for improving auditing arrangements in that area.

4. In the fifth case, the Board found material uncertainty about the valuation placed on outstanding assessed contributions receivable (United Nations peacekeeping operations). The Board recommended that the United Nations administration seek an appropriate solution to the valuation placed on outstanding assessed contributions receivable in respect of peacekeeping operations.

5. In the sixth case, owing to errors in accounting for pledges, income was overstated in the financial statements of the United Nations Habitat and Human Settlements Foundation ($981,854) and the United Nations Conference on Human Settlements (Habitat II) ($184,817). Moreover, the Foundation did not maintain the transactions of Habitat II under two separate trust fund accounts as mandated by the General Assembly.

United Nations system accounting standards

6. The Board confirmed that organizations have generally complied with the common accounting standards for the biennium 1994-1995. However, further work needs to be done in the biennium 1996-1997 to bring the financial statements fully in line with these standards. The main areas for attention include disclosure of valuation of property, cash held in non-convertible currencies and calculation and disclosure of end of service liability for termination benefits.

Accounts and financial reporting

7. UNDP paid a total of $39.3 million against fixed price construction contracts valued at $27.9 million. Additional outstanding liabilities at the same date amounted to $5.6 million. These payments were made to contractors against the construction projects and were certified on the basis of an architect's certificate, without adequate, independent supporting documents. In addition, there were significant shortcomings in the exercise of the certifying and approving officers' functions, and Contracts Committee approval was not obtained to sanction increases beyond contract amounts. Additionally, for four contracts amounting in total to $1.28 million, UNDP paid the architect some $3.8 million on the basis of a percentage of the actual construction costs, rather than a percentage of the contracted costs as provided in the contract. UNDP has established a working group to address the breakdown in internal controls. The Board recommended that UNDP ascertain whether any payments to contractors, subcontractors or the architect were outside the terms of the

contracts; and if so, that it take appropriate recovery steps (A/51/5/Add.1, sect. II, paras. 87-103).

8. The United Nations Children's Fund (UNICEF) included in the contributions receivable of $195.2 million, an amount of $14.1 million that has remained unpaid for 5 to 10 years; and did not make provision for the amount of doubtful receivables. Also, the policy of recording cash assistance to Governments as programme expenditure at the time funds are advanced is not consistent with the financial regulations of UNICEF and contradicts its definition of programme expenditure. The Board noted that of the $491.6 million supplementary funds projects identified by UNICEF for funding in 20 countries only $98.6 million was funded, suggesting overambitious supplementary funds forecasting. The Board recommended that the UNICEF policy of recording cash assistance to Governments as programme expenditure be reviewed. UNICEF should also improve further the accuracy of its income projections for unfunded supplementary programmes through more realistic budgeting and fund-raising strategies. In addition, UNICEF should review the basis for allocating general resources to country programmes since it does not take into account recent significant changes in under five mortality rates and child population statistics (A/51/5/Add.2, sect. II, paras. 35-37, 60, 63 and 65).

9. In a UNICEF field office, the Board noted a breakdown of internal controls arising from non-adherence to UNICEF established financial procedures relating to procurement, recruitment and disbursements. Obvious symptoms of mismanagement were either ignored or not effectively followed up by UNICEF headquarters. The Board recommended that UNICEF strengthen its monitoring of the operation of internal control systems in field offices through prompt and effective investigation of indications of mismanagement (A/51/5/Add.2, sect. II, paras. 69 and 70).

10. In the United Nations Habitat and Human Settlements Foundation, inter-fund borrowing amounting to $900,000 from the Foundation's funds and trust funds was used to augment the activities of Habitat II, which resulted in a freeze on non-earmarked projects of the Foundation. The Board recommended that priority be given to raising adequate non-earmarked voluntary contributions for Habitat II so that the borrowed funds could be returned to the Foundation. Further, a liability of $3.3 million by way of repayments due to the Central Emergency Revolving Fund of the Department of Humanitarian Affairs has not been disclosed (A/51/5/Add.8, sect. II, paras. 39 and 41-45).

11. In the United Nations, there was a steady decline in the net income from revenue-producing activities, from $10.2 million in 1990-1991 to $0.5 million in 1994-1995. The operations of the United Nations Postal Administration (UNPA) accounted for most of the decreases ($6.4 million) in net income as compared with the previous biennium (A/51/5 (Vol. I), sect. II, paras. 124-126).

12. In the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), the operational results of the General Fund showed a surplus of $15.7 million for the biennium ended 31 December 1995, compared with a deficit of $37.4 million incurred for the prior biennium and income from all funds exceeded expenditure by $25.6 million. However, the working capital fund

portrayed a precarious financial position (A/51/5/Add.3, sect. II, paras. 21-25).

13. In four organizations, the Board noted weaknesses in funding of extrabudgetary activities. The International Trade Centre (ITC) UNCTAD/WTO authorized the allocation of funding to trust fund projects prior to the receipt of the funds, contrary to United Nations procedures. In the United Nations Institute for Training and Research (UNITAR), the Board recommended that the Administration exercise more effective control over project expenditure in the Special Purpose Grants Fund and that financial commitments not be made without sufficient donor funds. In UNRWA, in view of implications on the General Funds cash flow, the Agency may wish to review its policy of advance authorization of funds to pre-finance projects prior to the receipt of contributions. Regarding the special purpose projects in the United Nations Habitat and Human Settlements Foundation, expenditure was incurred without valid pledges from the donors in the amount of some $448,000 during the biennium (A/51/5 (Vol. III), sect. II, paras. 35-37; A/51/5/Add.4, sect. II, para. 25; A/51/5/Add.3, sect. II, paras. 68 and 69; and A/51/5/Add.8, sect. II, para. 30).

14. The Board noted that as at the end of the biennium, there was a decline in the liquidity position in the United Nations, UNICEF, UNEP, UNRWA and the United Nations Habitat and Human Settlements Foundation. In the United Nations General Fund, the Working Capital Fund and the Special Account, there was a reduction in the net current assets by $159.7 million. In UNICEF, net current assets declined by $82.2 million (34 per cent) as compared with 31 December 1993. In UNEP, the ratio of current assets to current liabilities declined from 1:1.95 to 1:1.3 compared with the previous biennium. In UNRWA, the working capital of $10.2 million was not sufficient to cover accumulated deficit balances of other Funds totalling $24.9 million. In the United Nations Habitat and Human Settlements Foundation, the quick ratio (cash and near-cash to current liabilities) has deteriorated from 1.5:1 to 0.98:1 compared with the previous biennium. The deteriorations in liquidity call for more effective working capital management in the various organizations. In addition, the Board noted that expenditure exceeded income in UNICEF by $5.4 million; in UNDCP by $6.9 million; and in UNITAR by $111,585 (A/51/5 (Vol. I), sect. II, para. 50; A/51/5/Add.2, sect. II, para. 45; A/51/5/Add.6, sect. II, para. 33; A/51/5/Add.3, sect. II, paras. 22 and 25; A/51/5/Add.8, sect. II, para. 47; and A/51/5/Add.10, sect. II, para. 20).

II. BUDGETARY CONTROL

15. In the United Nations, the overall budgetary control showed improvement. The Board, however, recommended that budgetary control at the level of responsibility centres be improved by closer scrutiny through the generation of exception reports. There was also a need for rigorous control over budgetary performance of trust funds in view of the number of cases where expenditures were incurred without allotments. In addition, the format of the periodic budget performance reports should be modified to enable a more meaningful review of expenditures (A/51/5 (Vol. I), sect. II, paras. 57 and 58).

16. The actual expenditures of the Office of the United Nations High Commissioner for Refugees (UNHCR) varied substantially from the budget estimates during the period from 1993 to 1995. In respect of several field offices, the variances between budget estimates and actual expenditures exceeded by more than 25 per cent. In a few cases, variances between budget estimates and actual expenditures were as high as 96 to 350 per cent. There were also underutilization of appropriations ranging from 600 to 706 per cent. The Board recommended that the reasons for variances between the initial and revised budgets and the actual expenditures in respect of programme components in the budgets be analysed and the findings and recommendations submitted to the Executive Committee every year (A/51/5/Add.5, sect. I, paras. 50-54).

17. In the United Nations University (UNU), there were wide variances between budgetary appropriations and allotments and between allotments and actual expenditures in a large number of programmes/projects. Similarly, in a regional institute of UNU, against an envisaged specific programme contribution of $1.1 million, the actual receipt was only $93,919, indicative of inaccurate budget estimations and deficiency in the system of budgetary control (A/51/5 (Vol. IV), sect. II, para. 36).

18. Further, in 59 projects implemented by UNEP, there were excess expenditures over allotments. At the United Nations Office for Project Services, the Board noted 46 projects that had each exceeded their budget by more than $50,000 (A/51/5/Add.6, sect. II, para. 53; and A/51/5/Add.10, sect. II, para. 42).

19. The Board recommended that the systems and procedures for budget estimation and budgetary control be reviewed to ensure that financial allotments and actual expenditures are closely related to appropriations, and that the process of estimating the income including carried forward available fund balances and specific programme contributions be systematized.

Procurement

20. Following the Board's recommendations in its report for the biennium 1992-1993 and in the light of General Assembly resolution 49/216 C of 23 December 1994, the United Nations Administration initiated a number of measures to improve the procurement process. The Board reviewed the progress on the implementation of its recommendations, as well as action taken by the Administration on the report of the High-level Group of Experts on Procurement.

21. In the United Nations, the Procurement and Transportation Division was restructured on a commodity-based system. The Board recommended that the Administration conduct a further study of internal control measures required in the modified structure, including adequate lines of authority, supervision and accountability. The Administration has since decided to regroup the Division into two sections and to reduce the number of clusters so as to improve the level of supervision.

22. The Board noted that the Procurement and Transportation Division had yet to establish fully a unified management information system and that the Division did not have comprehensive data on procurement cases above $500,000 which were

exempted from the bidding process. In addition, despite the Board's previous recommendation that major procurements above $500,000 be by open tender, that was rarely used in the procurement process. The Board also noted that advance procurement planning was not generally practised, but that for high-value requirements some requisitioners and the Division were working towards that objective (A/51/5 (Vol. I), sect. II, paras. 80-89 and 101-103).

23. The Board was concerned that about 57 per cent of the contracts pertaining to the Department of Peacekeeping Operations and 23 per cent of contracts relating to United Nations Headquarters were reviewed by the Headquarters Committee on Contracts from 1 July 1995 to 30 April 1996 either on an ex post facto or partial ex post facto basis (A/51/5 (Vol. I), sect. II, paras. 96 and 97).

24. The Board recommended that action be taken to establish a reliable unified management information system and a comprehensive database, including high-value procurement cases that were exempted from the bidding process; that detailed guidelines be established on the methods of invitation to bid covering the various aspects of procurement; and that the requirements and appropriate categories of goods and services that could be covered by systems contracts be identified in advance through improved procurement planning (A/51/5 (Vol. I), sect. II, paras. 87-89 and 100).

25. As regards international procurement for peacekeeping operations, the Board noted that there was insufficient use of expertise in procurement planning in eight peacekeeping missions, including the United Nations Protection Force (UNPROFOR) and the United Nations Operation in Somalia (UNOSOM), which led to payments for aircraft services not utilized, assessed at $2.4 million in the United Nations Angola Verification Mission (UNAVEM) and $0.4 million in the United Nations Observer Mission in Liberia (UNOMIL). Also, invitations to bid were issued exclusively to prequalified vendors without recourse to tender by advertisement. In the case of the United Nations Operation in Mozambique (ONUMOZ), contracts were extended or rolled over without bidding, even though significant savings were realized in cases where competitive bidding was applied (A/51/5 (Vol. II), sect. II, paras. 78 and 86-89).

26. A contract for logistical services at UNOSOM II between 1 May 1993 and 31 March 1994 was awarded and extended without bidding under letter of assist terms to a Government in the amount of $58.1 million. In the absence of comparative quotations, the Headquarters Committee on Contracts had no opportunity to confirm the reasonableness of the prices quoted (A/51/5 (Vol. II), sect. II, paras. 197-204).

27. In another contract of this nature in UNOSOM II, a contract that was based on cost reimbursement terms did not provide sufficient inducement for the contractor to contain costs of logistics services to the mission (A/51/5 (Vol. II), sect. II, paras. 205 and 206).

28. The Administration did not administer letters of assist in accordance with the Organization's rules and procedures. In a sample of letters of assist with a total value of $52.5 million, there were insufficient details on the originating requisitions to provide a basis for verification against actual

services received and goods delivered at the field missions. A total of $28.6 million was paid, and $20.7 million had been certified for payment, all without cross reference to the appropriate letter of assist numbers. No formal procedures were established between the Field Administration and Logistics Division and the field missions for the verification of the continuing need of outstanding letter of assist obligations and for reconciling deliveries with expired letters of assist to determine the validity of the obligations in the accounts (A/51/5 (Vol. II), sect. II, paras. 105-122).

29. The Board made recommendations for improving control and monitoring of procurement made through letters of assist, including improved monitoring of letter of assist deliveries, and enforcement of the requirement that receiving and inspection reports should be obtained as proof of delivery before letters of assist claims were certified for payments (A/51/5 (Vol. II), sect. II, paras. 105-122).

30. The Board noted that since October 1993 UNPROFOR had paid under protest excise duty on its purchases of petroleum, oil and fuel contrary to the status of forces agreement. The tax was estimated to amount to about $37 million by 31 March 1996 (A/51/5 (Vol. II), sect. II, paras. 129-132).

31. It is the practice of the Department of Peacekeeping Operations (DPKO) to order and charge certain purchases against the budgets of missions that are not the intended beneficiaries of the items. No procedures were in place to effect the necessary adjustments to ensure accurate reporting of procurement expenditures by missions. The Board recommended that a procedure be put in place for appropriate adjustments to be made in respect of purchases charged against the funds of missions that were not the intended users of the items (A/51/5 (Vol. II), sect. II, paras. 123-128).

32. The Board noted a lack of planning leading to piecemeal procurement of goods and shortcomings in competitive bidding procedures in UNU, UNEP and the United Nations Habitat and Human Settlements Foundation. The Board also noted that in UNHCR, annual procurement plans for 1995 were received from only 52 of the 117 field offices. In one case, owing to a deficiency in procurement planning and omission to indicate specifications clearly, UNHCR suffered a financial loss of about $3,037,000 in the procurement, redeployment and resale of a disinfectant ordered by a field office (A/51/5 (Vol. II), sect. II, paras. 62-63; and A/51/5/Add.5, sect. I, paras. 109-121).

33. The Board recommended that organizations prepare annual procurement plans in order to facilitate consolidation of orders, to avail the benefits of economies of scale, and to provide overall competitiveness in procurement; and that the practice of placing piecemeal purchase orders for commonly used commodities be avoided (A/51/5/Add.6, sect. II, paras. 69-80).

34. In addition, the Board recommended that in the United Nations Habitat and Human Settlements Foundation, the circumstances of awarding a fund-raising contract to a private agency in connection with Habitat II, which had resulted in unwarranted expenditure of $248,698, be investigated to avoid recurrence of such events (A/51/5/Add.8, sect. II, paras. 74-78).

35. The Board noted that some 1,305 receiving reports were overdue from UNHCR field offices for periods ranging between six months to over four years. In the absence of those reports, there was no assurance that goods contracted and paid for had reached their destinations in good condition (A/51/5/Add.5, sect. I, paras. 102-105).

36. The Board recommended that UNHCR field offices be required to send receiving reports, giving complete details, within a set period, in respect of goods ordered on their behalf by UNHCR headquarters (A/51/5/Add.5, sect. I, paras. 102-105).

Liquidation of peacekeeping operations

Liquidation tasks

37. Although the liquidation process of ONUMOZ continued for almost one year up to the end of December 1995, several residual tasks remained to be completed as of June 1996. The Board recommended that the Administration give greater attention to the management and completion of liquidation tasks of missions within a specified period by assigning specific responsibility for the post liquidation functions until all tasks were completed (A/51/5 (Vol. II), sect. II, paras. 234 and 235).

Transfer of assets on liquidation

38. The Board noted that as at 31 March 1996, receiving missions had not acknowledged 4,460 items of equipment, valued at $20.2 million, transferred to them from UNOSOM II. There were also instances where property was transferred from liquidating missions to ongoing missions without a thorough needs assessment to determine the need for such items in the receiving missions. For example, as of November 1995, UNPROFOR held approximately 3,500 generators received from the United Nations Transitional Authority in Cambodia (UNTAC) and other sources. Of that number, 1,700 were in use and 950 were awaiting shipment to the United Nations Logistics Base at Brindisi. The remainder, worth some $12 million, were under repair or being held as reserve. In addition, 142 old and unserviceable vehicles were transferred from other missions to the United Nations Assistance Mission for Rwanda (UNAMIR) or left behind by returning contingents. The Board recommended that before assets were transferred from a liquidating mission to a continuing mission, appropriate evaluation be conducted to avoid the transfer of unserviceable property at additional costs to the Organization (A/51/5 (Vol. II), sect. II, paras. 187-191, 227, 228 and 254).

Programme management

39. In the United Nations, the number of self-evaluation of subprogrammes has been on the decline while no significant increase in the numbers of in-depth evaluations are expected during the current medium-term plan period as compared with the previous period, though the evaluation cycle has been shortened. Some departments had not carried out any formal self-evaluation of their subprogrammes during 1992-1993 and 1994-1995. The Board made recommendations on

improvement of the quality of programme planning, monitoring and evaluation in the United Nations Organization (A/51/5 (Vol. I), sect. II, paras. 269-272).

40. In UNHCR, in several cases, programme planning was deficient on account of inaccurate estimations of availability of funds and of the number of refugees and their needs. For example, there was insufficient preparatory work and planning in the selection of projects for implementation, the basis for selection of beneficiaries was not adequately documented and work plans were not prepared in respect of programmes and projects implemented by several field offices. Similarly, there were widespread instances of failure to include performance indicators in sub-agreements signed with implementing partners. In some cases, there were persistent delays in the field offices in signing sub-agreements with implementing partners, while in other cases delivery of assistance to beneficiaries was delayed. The Board noted several deficiencies in the project implementation by an implementing partner in the United Republic of Tanzania, which had resulted in inefficient programme delivery, as well as possible overpayments in excess of some $400,000 during 1995 to UNHCR (A/51/5/Add.5, sect. I, paras. 72-74 and 85-94).

41. The Board recommended that UNHCR review the impact of uneven funds availability on project formulation and implementation. UNHCR should also take steps to improve programme planning, monitoring and evaluation, including establishing appropriate criteria for selection of beneficiaries. Further, the deficiencies in the implementation of a project in the United Republic of Tanzania by an implementing partner should be investigated and remedial measures taken, including recovery of overpayments (A/51/5/Add.5, sect. I, paras. 74, 77 and 94).

42. In UNEP, a policy framework had not been clearly established delineating the role of UNEP in project formulation and programme management vis-à-vis its implementing agencies. Also, the role of regional offices had not been clearly defined. Delays in programme planning had resulted in consequential delays in start up of projects for the biennium 1994-1995. The Board noted an uneven pattern of project expenditures and that a substantial number of projects had been accepted for implementation towards the end of the biennium. The project monitoring procedures of UNEP were adequate, but the systems for project evaluation required substantial improvement. The Board made recommendations to improve project formulation, programme planning, monitoring and implementation in UNEP, including the need for review of the merits and demerits of the present system of top-down planning and its impact on project implementation (A/51/5/Add.6, sect. II, paras. 41-47).

43. In UNRWA, the Groba Irrigation Technology Project was implemented without due regard to the Agency's programme management procedures, and as a result the project suffered a number of deficiencies in regard to project design, expenditure monitoring and control and donor reporting. Inadequate consultation and coordination in project planning between UNRWA, the beneficiary and major donors resulted in shortcomings, such as overestimation and underestimation of resources, inadequate feasibility studies and doubtful future sustainability of some projects under implementation. Efficient project implementation was adversely affected by such factors as high staff turnover and unrealistic implementation schedules and difficulties in land acquisition. In addition, an

agreement with a major donor requiring UNRWA to pre-finance projects prior to the payment of pledged contributions could have serious cash flow implications on the General Fund, owing to the slow reimbursement procedure caused, principally, by implementation delays (A/51/5/Add.3, sect. II, paras. 67-70).

44. The Board recommended that UNRWA ensure strict adherence to its programme management procedures on the acceptance, disbursement and reporting on project funds to assure donors of the effective utilization of their contributions. In addition, for projects being developed in the context of bilateral cooperation, UNRWA should be involved at the very start of the planning process to provide the necessary expertise in the development of a feasible project plan and realistic implementation schedules to expedite project delivery. To improve planning with appropriate consideration for sustainability, the Agency should develop an efficient system of continuing consultation and coordination between the Agency, the beneficiaries and major donors (A/51/5/Add.3, sect. II, paras. 54 and 63).

45. In the United Nations Habitat and Human Settlements Foundation, deficiencies in project planning and project designs resulted in time and cost overruns. Such deficiencies included inaccurate estimation of project inputs, imbalances in budget allocations for the components of the project, lack of clarity in defining the objectives and unrealistic estimation of the technical assistance work programme. Inefficient project coordination, inadequate work plans, delays in signing project agreements and mismatch of the technical assistance with the capability of the national staff led to tardy project implementation. The Board made recommendations for improvement in programme planning, project designs and project implementation (A/51/5/Add.8, sect. II, paras. 60-65 and 69).

46. UNU has not introduced a formal and widely understood system of selection and approval of projects. There have been delays in completion of projects. Further, the existing evaluation procedures are inadequate since they do not fully provide for evaluation of the project outputs in terms of objectives, timeliness, utilization of professional human resources and budgetary costs (A/51/5 (Vol. IV), sect. II, paras. 39 and 43-47).

47. In UNICEF, the inability of many assisted countries to discharge their basic obligations under the basic cooperation agreements casts doubts on the realization of the goals of sustainability and capacity building. UNICEF may consider initiating collaborative studies, in particular programme sectors of different geographical areas, to determine how many projects completed under the decade goals have proved to be sustainable and have consequently promoted capacity building (A/51/5/Add.2, sect. II, para. 58).

Management of technical cooperation projects

48. Regarding its role in management of technical cooperation projects, the Board recommended that UNDP establish standards of Governments' capacities to manage and deliver national execution projects. Country offices, in association with Governments, should assess the existing capacities of Governments against those standards. In addition, UNDP should, in agreement with Governments,

formulate projects designed to address any gaps or weaknesses in the capacities of Governments to bring them up to the required standards. Further, UNDP should re-emphasize the need to assess the capacity of Governments to undertake national execution projects and should also establish an evaluation strategy to provide a comprehensive assessment of the progress and achievements of national execution (A/51/5/Add.1, sect. II, paras. 150-159).

49. UNFPA had not made a global assessment of what was needed to be done to help national institutions achieve self-sufficiency and be able to execute projects efficiently. Also, UNFPA had not set strategic targets for the rate of introduction of national execution, implementation of which will continue to be selective and gradual. The Board found that field offices were not adequately assessing the administrative, financial and technical capability of national executing agencies and taking account of any deficiencies when formulating projects. In some projects examined, there was no clear statement of how the projects would meet the overall aims of UNFPA and the interregional programme. Most of the projects examined had failed to set out clear, measurable outputs. It was therefore difficult to ascertain whether objectives were being achieved. The Board noted that UNFPA was addressing those issues (A/51/5/Add.7, sect. II, paras. 112-122).

50. The level of resources available to the Department for Development Support and Management Services had continued to decline partly because of the rapid growth of national execution. The level of programme support revenue had also declined owing to a reduction in the rate of delivery of project activities. There was a low project delivery rate, partly owing to poor planning and monitoring of project activities, lack of presence in the field and inefficient working practices and procedures. The inability of the Department to downsize quickly highlighted the need for a more flexible staffing resource in the future. There was also little evidence of clear strategic management of the downsizing. As a result, and owing to the significant reductions of technical staff, the Department's ability to improve programme delivery and to generate new business was adversely affected (A/51/5 (Vol. I), sect. II, paras. 240-243).

Human Resources Management

Consultants

51. Terms of reference for engagement of consultants were not always detailed enough (the United Nations Office at Geneva, the Department for Development Support and Management Services, UNFPA and the United Nations International Drug Control Programme). This undermined the organizations' ability to control and monitor contracts and to determine whether consultants had achieved the objectives in terms of quality and cost. The Board recommended that the terms of reference of consultants be prepared more precisely, including objectives, targets and output delivery dates, in order to improve the prospects of securing good value for money (A/51/5 (Vol. I), sect. II, paras. 158-161; A/51/5/Add.7, sect. II, paras. 127 and 128; and A/51/5/Add.9, sect. II, para. 25).

52. At United Nations Headquarters, nearly 80 per cent of consultants engaged were from 12 developed countries. Some four developed countries accounted for

47 per cent of all contracts given by the Department for Development Support and Management Services in 1994. In UNEP, two countries accounted for 27 per cent of consultants appointed in the biennium. Also, UNU had not taken effective steps to attract more candidates and researchers from developing countries in line with its Charter and the policy adopted by the Council. Further, in many cases tested at United Nations Headquarters, the United Nations Office at Geneva, the United Nations Office at Vienna and UNEP, only one candidate was considered. The Board recommended that appropriate norms be established for selection of consultants from a wider geographical base and that selections based on consideration of sole candidate be discouraged (A/51/5 (Vol. I), sect. II, paras. 162-166, 173 and 174; A/51/5/Add.6, sect. II, para. 83; and A/51/5 (Vol. IV), sect. II, paras. 59-61).

53. The level of remuneration paid by the Department for Development Support and Management Services to consultants was 30 to 35 per cent higher than that paid by comparable organizations. In UNEP, the basis for fixing the remuneration of consultants was also not transparent. The Board recommended that recruitment officers be given improved access to comparative information on consultants' fees and that the basis of fixing the remuneration of consultants be recorded (A/51/5 (Vol. I), sect. II, para. 185; and A/51/5/Add.6, sect. II, para. 84).

54. The Board noted that the rosters of consultants were not properly maintained and were not regularly used. For example, the Board found that in UNFPA 77 per cent of consultants used in the biennium 1994-1995 were not included on the roster and there were no formal guidelines for maintaining the roster. In ITC, the roster was not continuously updated to show previous assessments and experience, and key information such as technical skills and languages spoken; and to remove from the records those consultants who had consistently failed to provide updated personal histories. A similar situation existed in UNEP. The Board recommended increased use of the consultants' rosters, which should be maintained with up-to-date information (A/51/5/Add.6, sect. II, paras. 81-83; A/51/5 (Vol. III), sect. II, paras. 62-64; and A/51/5/Add.7, sect. II, paras. 130-132).

Training

55. The Board noted instances where training needed to be improved. For example, certain chief administrative officers of the field missions and the military contingents had not adhered to established procedures on procurement. Also in UNPROFOR, owing to a shortage of trained personnel, some staff were put in posts where they had little experience; similarly, local staff were at times placed in positions of responsibility without adequate training and knowledge of United Nations procedures and policies. To improve the effectiveness of the training programme recommended by the High-level Group of Experts on Procurement, the Board suggested that the programme be extended to cover the military logistic personnel and other personnel in the missions involved in the procurement process (A/51/5 (Vol. II), sect. II, paras. 158 and 159).

56. In UNHCR, while there was substantial improvement in the number of training programmes conducted and in the number of persons trained from governmental and non-governmental organizations, there was scope to increase the number of

training programmes in areas closely related to the UNHCR operational requirements (A/51/5/Add.5, sect. I, para. 122).

57. The UNU/World Institute for Development Economics Research had not paid sufficient attention to training of young scholars, particularly from developing countries, as required under its statute. Long-term training strategies should be developed by UNU and its institutes to provide appropriate training to young scholars from developing countries (A/51/5 (Vol. IV), sect. II, para. 52).

Budgetary assumptions and performance reporting

Budgetary assumptions

58. In the United Nations, in formulating the programme budget, the latest available rates of exchange for the various currencies were used to compute the standard cost tables at the end of each year; but the averaging method for forecasting the operational rates of exchange (used in the initial budget for 1992-1993 and the revised budget for 1990-1991) proved to be more accurate. In addition, the practice of projecting the rates of inflation as reflected in the consumer price index for non-post items had certain limitations, since major items such as electronic data-processing equipment, have demand/supply parameters different from those items used to measure the consumer price index. Moreover, since there were wide variations in the actual vacancy rates in different duty stations, and the standard cost of each post differed in terms of post adjustment and the percentage attributable to common staff costs, the Board considered that the adoption of a uniform vacancy rate for formulation of budgetary proposals for staff costs was likely to give rise to significant inaccuracies (A/51/5 (Vol. I), sect. II, paras. 109-112).

59. The Board recommended that budgetary assumptions relating to operational exchange rates be based on an averaging method and that inflation rates for non-post items be based on the price trends pertaining to a basket of goods and services normally procured by duty stations (A/51/5 (Vol. I), sect. II, paras. 109-112).

60. In UNDP, the Board recommended that work measurement exercises of country offices' activities be carried out to help UNDP to strengthen its budgetary formulation process at the local level, to provide benchmarking data for country offices and to help compile standard performance indicators (A/51/5/Add.1, sect. II, para. 168).

61. The budgeting procedures adopted by UNHCR do not provide for re-costing for inflation and exchange rates in respect of field office budgets. The method of computing the vacancy factor is also not accurate. The Board recommended that a factor for inflation multipliers and exchange rate variations be included in respect of the field office budgets of major expenditure centres. Further, the method of computing the vacancy factor also needs refinement; and the Financial Management Information System should be modified to provide for common staff costs percentages separately for General Service and Professional staff (A/51/5/Add.5, sect. I, paras. 58-65).

62. The Board considered that the estimation of UNEP income from contributions was not realistic and that the estimation of exchange rate variations and vacancy factor for the purpose of budget formulation requires refinement. The Board suggested that UNEP establish more realistic estimations of voluntary contributions. In addition, budgetary assumptions should be modified to adopt an averaging method of estimating exchange rates and location specific vacancy rates (A/51/5/Add.6, sect.II, paras. 36-39).

63. In UNICEF, the rates of exchange available at specific periods of time for costing the budget and for revising resources in the performance reports, resulted in understatement of resource needs. The Board suggested that an exchange rate projection might be based on the average of the actual rates of the preceding year (A/51/5/Add.2, sect. II, para. 81).

Budget performance reporting

64. In the United Nations, the Board considered that in order to provide more accurate and reliable information to the legislative bodies concerned, the budget performance reports presented to the General Assembly should be modified to include the actual trends of expenditures and performance closer to the end of the biennium. The Board recommended that the second budget performance report contain actual expenditure figures for the first 21 months of the biennium and projections for the remaining 3 months (A/51/5 (Vol. I), sect. II, paras. 121-123).

65. The Board recommended that UNDCP consider presenting a performance report that indicated actual outturn for the biennium in terms of activities and included a quantified summary of achievements against mandates and objectives across all activities (A/51/5/Add.9, sect. II, para. 33).

Internal audit

66. The Board carried out horizontal reviews of internal audit in a number of organizations pursuant to paragraph 7 of General Assembly resolution 50/204 A of 23 December 1995, in which the Assembly requested the Board to follow up and report on shortcomings in the internal audit coverage previously reported by the Board in its report for the biennium 1990-1991.

67. Following its most recent review, the Board recommended that in the Office of Internal Oversight Services, Audit and Management Consulting Division, the internal audit coverage of UNHCR country programmes be enhanced to aim at a shorter audit cycle and to cover activities with high risk rating more frequently. Also, the database of audit activities should be made more comprehensive to ensure inclusion of all audit and related activities and available resources and an appropriate medium-term audit plan should be developed. The Board further recommended that all prior period audit recommendations be reviewed to identify and follow-up the more important and relevant issues (A/51/5 (Vol. I), sect. II, paras. 65, 73 and 75-78).

68. In UNDP Division of Audit and Management Review, all audit sections should produce long-term audit plans identifying proposals covering their audit fields,

and any resulting resource changes needed. In drawing up its plans, the Division should assess and record the resource implications and skills needed for the work proposed, taking account of ad hoc demands and should clearly document the criteria used to select subjects proposed for review, which should include materiality, known and potential risks, and the timeliness of the proposed audit. The Division should also establish standard documentation, clearly setting out the audit procedures undertaken, and the findings and conclusions; and it should update its permanent files with basic information on the auditees. Further, the Division should establish procedures to follow up on actions taken by UNDP and the United Nations Office for Project Services in response to internal audit recommendations (A/51/5/Add.1, sect. II, paras. 223-230 and 235-237).

69. The Board noted that in UNICEF, internal audit still lacked sufficient staff resources to meet its three-year rolling workplan and its planned audit coverage for 1995. The Board took note that the Executive Board had now approved additional professional posts for the Office of Internal Audit. Further, there were delays in the implementation of audit recommendations. The Board recommended that the Internal Audit Committee establish time-frames for the implementation of audit recommendations (A/51/5/Add.2, sect. II, paras. 100 and 103).

Cases of fraud and presumptive fraud

70. The Board was provided with information on some 148 cases of fraud or presumptive fraud involving a total of $3,171,869 that became known to six organizations during 1994-1995. Of this amount, approximately $612,544 has been recovered; these cases involved staff members and non-staff members. Disciplinary action in the form of summary dismissal was taken against some of the staff members and other cases are still under investigation.

(Signed) Osei Tutu PREMPEH
Auditor-General of Ghana

(Signed) Sir John BOURN
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

(Signed) Vijay Krishna SHUNGLU
Comptroller and Auditor General
of India

31 July 1996

APPENDIX

List of organizations reported on for the financial period ended 31 December 1995

United Nations a/

United Nations peacekeeping operations b/

International Trade Centre c/

United Nations University d/

United Nations Development Programme e/

United Nations Children's Fund f/

United Nations Relief and Works Agency for Palestine Refugees in the Near East g/

United Nations Institute for Training and Research h/

Voluntary Funds Administered by the United Nations High Commissioner for Refugees i/

United Nations Environment Programme j/

United Nations Population Fund k/

United Nations Habitat and Human Settlements Foundation including the United Nations Conference on Human Settlements (Habitat II) l/

United Nations International Drug Control Programme m/

United Nations Office of Project Services n/

The Board also examined the accounts of the United Nations Joint Staff Pension Fund, and the audit report thereon will be included in the report of the United Nations Staff Pension Board.

Notes

a/ Official Records of the General Assembly, Fifty-first Session, Supplement No. 5 (A/51/5), vol. I.

b/ Ibid., Supplement No. 5 (A/51/5), vol. II.

c/ Ibid., Supplement No. 5 (A/51/5), vol. III.

d/ Ibid., Supplement No. 5 (A/51/5), vol. IV.

e/ Ibid., Supplement No. 5A (A/51/5/Add.1).

f/ Ibid., Supplement No. 5B (A/51/5/Add.2).

g/ Ibid., Supplement No. 5C (A/51/5/Add.3).

h/ Ibid., Supplement No. 5D (A/51/5/Add.4).

i/ Ibid., Supplement No. 5E (A/51/5/Add.5).

j/ Ibid., Supplement No. 5F (A/51/5/Add.6).

k/ Ibid., Supplement No. 5G (A/51/5/Add.7).

l/ Ibid., Supplement No. 5H (A/51/5/Add.8).

m/ Ibid., Supplement No. 5I (A/49/5/Add.9).

n/ Ibid., Supplement No. 5J (A/51/5/Add.10).